

Message Text

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C O N F I D E N T I A L SECTION 1 OF 2 ROME 3968

LIMDIS

E.O. 11652: GDS

TAGS: ENRG, IT, US, OECD

SUBJECT: GOI ENERGY PROBLEMS: ASSISTANT SECRETARY ENDER'S
VISIT

1. SUMMARY. MARCH 18 MEETING BETWEEN ASSISTANT SECRETARY ENDERS AND GOI INTERMINISTERIAL DELEGATION (MFA, TREASURY, INDUSTRY, BANK OF ITALY) RESULTED IN THOROUGH AIRING OF GOI ENERGY CONCERNS, PARTICULARLY IN LIGHT OF MARCH 7 IEA DRAFT AGREEMENT. MOST GOI QUESTIONS INVOLVED POSSIBILITY OF EXTERNAL SUPPORT FOR AMBITIOUS ITALIAN NUCLEAR REACTOR PROGRAM; SPECIFICALLY, ACCESS TO URANIUM, NUCLEAR TECHNOLOGY, ENRICHMENT SERVICES AND FINANCING. SUBJECTS WERE FURTHER EXPLORED IN SUBSEQUENT MEETINGS WITH MINISTER OF INDUSTRY CARLO DONAT-CATTIN AND FOREIGN MINISTER MARIANO RUMOR (SEPTTEL). ITALIANS PROPOSED CREATION OF BI-LATERAL WORKING GROUP TO MAINTAIN ENERGY DIALOGUE (SEPTTEL). END SUMMARY.

2. AFTER SUMMARY OF GOI POSITION, GOI DELEGATION HEAD AND DG ECONOMIC AFFAIRS AMBASSADOR GUAZZARONI SAID THAT NO GOI DECISION HAD YET BEEN REACHED ON MARCH 7 DRAFT AGREEMENT BUT THE WORKING LEVELS WERE DISPOSED TOWARDS A FAVORABLE
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DECISION. HE NOTED THAT THE MARCH 7 DECISION CONTAINED THE ELEMENTS THE GOI CONSIDERED MOST IMPORTANT: (A)

RECOGNITION OF IMPORTANCE OF PRODUCER/CONSUMER DIALOGUE;
(B) NEED FOR BALANCED BENEFITS AND DISADVANTAGES BETWEEN
ENERGY-RICH AND ENERGY POOR INDUSTRIALIZED NATIONS; (C)
SUBSTANTIAL DISCRETIONARY AREA LEFT TO INDIVIDUAL
COUNTRIES ON SUPPORT OF MINIMUM PROTECTED PRICE SYSTEM;
(D) MINIMUM PROTECTED PRICES BE SIGNIFICANTLY LOWER THAN
THE EXISTING PETROLEUM PRICES; (E) IMPORTANCE GIVEN TO
INTERNATIONAL COOPERATION IN FINANCE, TECHNOLOGY AND RESEARCH
AND DEVELOPMENT AND FINALLY; (F) THE ACCEPTANCE OF THE
SPECIFIC GOI REQUIREMENT ON SIMULTANEOUS BALANCING OF
BENEFITS AND COSTS.

3. ASSISTANT SECRETARY ENDERS INREPLY TRACED EVENTS AND
CONSIDERATIONS WHICH LED TO IEA AND BACKGROUND TO MARCH 7
DRAFT DECISION. HE EMPHASIZED US CONCERN THAT ALTERNATE
ENERGY DEVELOPMENT OPPORTUNITIES BE BALANCED BETWEEN
BOTH ALTERNATE ENERGY RICH AND ALTERNATE ENERGY POOR
NATIONS AND THAT THEIR POSITIONS BE COORDINATED EFFECTIVELY.
WITHIN THIS CONTEXT, ENDERS ANALYZED FOR THE ITALIAN
DELEGATION THE THREE TIER-PROPOSAL REFLECTED IN THE MARCH 7
PAPER.

4. GUAZZARONI NOTED DESPITE GOI ACCEPTANCE IN PRINCIPLE
OF MAJOR ELEMENTS OF IEA PROGRAM, THERE EXISTED SPECIFIC
AREAS OF ITALIAN CONCERN:

(A) NON-DISCRIMINATORY ACCESS. MAJOR ASPECT OF
PROBLEM IS NON-DISCRIMINATORY ACCESS TO ENERGY SUPPLIES
OF OTHER IEA PARTICIPANT COUNTRIES. LOOKING TOWARD TIME
WHEN INTERNATIONAL COMPANIES WILL NO LONGER HAVE LARGE
PRODUCTIVE ROLE, GOI CONCERNED ABOUT POSSIBLE DISCRIMINATORY
TREATMENT IN PROVISION SERVICES AND PETROLEUM PRICES OR SUPPLY.
ENDERS NOTED THAT US POSITION TOWARDS FREEDOM OF ACCESS TO
CRUDE, SERVICES AND PRODUCTS VERY CLOSE TO THAT OF THE
GOI. CANADA AND UK ARE NOT SIMILARLY DISPOSED. ALTERNATIVE
TO BLANKET ACCESS PRINCIPLE IS MECHANISM WHICH WILL CONSIDER
INDIVIDUAL CASES. CONTINUING, ENDERS NOTED THAT THE PROBLEM
OF ACCESS INVOLVES THREE AREAS: EQUALITY OF INVESTMENT
OPPORTUNITY, ACCESS IN EMERGENCY SITUATIONS AND ACCESS IN
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NON-EMERGENCIES. ON INVESTMENT OPPORTUNITIES, ENDERS
FORESAW PROGRESS ON MUTUAL COMMITMENTS TO IMPROVE ACCESS
TO NATURAL RESOURCES ON A NON-DISCRIMINATORY BASIS.
EMERGENCY SUPPLY IS NOT SERIOUS PROBLEM AS IT IS GOVERNED
BY THE IEA SHARING ARRANGEMENTS. IN NON-EMERGENCY CASES,
DISCRIMINATORY PRICE AND SUPPLY PROBLEMS WILL BE SIGNIFICANTLY
REDUCED IN SCOPE AS INDUSTRY PRACTICES BECOME TRANSPARENT
AND AS THE PRODUCER ROLE OF THE COMPANIES DIMINISHES.

(B) URANIUM. GUAZZARONI BRIEFLY DESCRIBED ITALIAN

NUCLEAR ENERGY PROGRAM AND ITALY'S CONSEQUENT NEED FOR CONTINUING ACCESS TO SUPPLIES OF NATURAL URANIUM ENRICHMENT SERVICES. DESPITE ITALIAN PARTICIPATION IN EURODIF AND URENCO RESEARCH, ITALY WILL DEPEND ON THE US FOR THIRTY PERCENT OF ITS ENRICHMENT NEEDS. ENDERS NOTED THAT NO US BARRIERS EXIST TO THE PURCHASE OF URANIUM. THE US IS ATTEMPTING TO ENCOURAGE OTHER INDUSTRIALIZED NATIONS TO JOIN IN THE PLANNING FOR THE NEW ENRICHMENT FACILITIES THAT WILL BE NECESSARY. (SEE PARAGRAPH 5).

(C) ACCESS TO TECHNOLOGY AND R&D EFFORTS. GUAZZARONI DESCRIBED ITALIAN NEED FOR GUARANTEES OF ACCESS TO ADVANCED TECHNOLOGY IN ALL AREAS, PARTICULARLY, TO IMPROVE EFFICIENCY OF ITALIAN NUCLEAR PROGRAM. ENDERS OUTLINED IEA ENERGY CONSORTIUM APPROACH WOULD ASSURE PARTICIPATION IN NEW TECHNOLOGY TO BE DEVELOPED AS RESULT OF NATIONAL OR INTERNATIONAL PROGRAMS TO CAPABILITIES OF EACH COUNTRY.

(D) FINANCIAL. GUAZZARONI NOTED GOI CONCERNS WITH ITALIAN BALANCE OF PAYMENTS POSITION AND WITH COST OF ALTERNATE ENERGY SYSTEMS; SPECIFICALLY, WHERE AND TO WHAT EXTENT CAN ITALY FIND ASSISTANCE FOR ITALY'S ENERGY PROGRAMS. HE NOTED GOI DESIRE FOR FURTHER DISCUSSIONS ON THIS TOPIC IN MULTILATERAL OR BILATERAL FORUMS. ENDERS NOTED AVAILABILITY OF THE IMF OIL FACILITY AND KISSINGER/SIMON SOLIDARITY FUND FOR GOI BALANCE OF PAYMENTS NEEDS AND US WILLINGNESS TO DISCUSS FINANCIAL COOPERATION.

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(E) COST OF NUCLEAR ENERGY. GUAZZARONI DEPLORED THAT MARCH 7 DECISION DID NOT SPECIFICALLY MENTION NUCLEAR ENERGY AS CONVENTIONAL SOURCE TO BE PROTECTED. ENDERS NOTED US AGREEMENT AND DESIRE TO WORK WITH GOI AND OTHER SIMILARLY-INCLINED DELEGATIONS FOR SPECIFIC LANGUAGE ON NUCLEAR POWER. BEARING ON EVENTUAL MINIMUM PROTECTED PRICE RANGES, EUROPEAN CALCULATIONS SUGGEST THAT NUCLEAR ENERGY WILL COST BETWEEN DOLLARS 4.50-6 ON PER BARREL OF OIL EQUIVALENT. ENDERS NOTED THAT US CALCULATIONS INDICATE THAT COST OF NUCLEAR-GENERATED ELECTRICITY DEPENDS ON THE RATE OF UTILIZATION; THUS, WHILE DOLS 4.50-5 IS THEORETICAL POSSIBILITY, DOLS 6-7 BECOMES A MORE EFFECTIVE RATE IN VIEW OF OPERATING PROBLEMS.

(F) OTHER RAW MATERIALS. GUAZZARONI UNDERLINED GOI CONCERN THAT A MINIMUM PROTECTED PRICE SYSTEM WOULD BE APPLIED TO OTHER RAW MATERIALS AS WELL. ENDERS STATED US RECOGNIZES UNDESIRABILITY OF PRECEDENT ON MINIMUM PROTECTED PRICE SYSTEM. HOWEVER, DANGER OF APPLICATION IS PRACTICALLY REMOTE BECAUSE OF SPECIAL MARKET SITUATION APPLIES TO OIL, AND BECAUSE OF THE IMPORTANT ROLE OF INDUSTRIALIZED COUNTRIES AS PRODUCERS OF MOST RAW
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MATERIALS.

(G) PROTECTIONISM. GOI SEES POSSIBILITY THAT RISING ENERGY PRICES COULD TOUCH OFF PROTECTIONISM AS INDUSTRIALIZED COUNTRIES SEEK TO PROTECT INDUSTRIAL SYSTEM AGAINST EFFECTS OF DIFFERENTIALLY HIGHER ENERGY COSTS. GOI GENERALLY CONCERNED ACCORDING TO GUAZZARONI, THAT THIS COULD HAVE EFFECT ON MTN AND OTHER TRADE NEGOTIATIONS. ENDERS NOTED THAT OPEC IS IN A POSITION WHERE IT MAY ONLY COUNT ON ITS MARKET POWER; TO THE EXTENT THAT THIS MAY BE REDUCED BY THE ACTIONS OF THE CONSUMING COUNTRIES PROTECTIONISM IS UNLIKELY TO BE A SIGNIFICANT PROBLEM.

5. DURING MEETINGS AT MINISTRY OF INDUSTRY, DONAT-CATTIN PROVIDED RECAP OF ITALIAN ENERGY PROBLEMS AND OUTLOOK, PARTICULARLY WITH RESPECT TO THE PROBLEMS OF DEVELOPING ADEQUATE ENERGY SOURCES. SINCE ITALY HAS FEW NATURAL RESOURCES CAPABLE OF EXPLOITATION, ONLY FEASIBLE PROGRAM IS BASED ON THE NUCLEAR REACTION CONSTRUCTION PROGRAM. ITALY HAS UNDERTAKEN TO ACCELERATE ITS

REACTOR PROGRAM. FOUR UNITS (4,000 MW CAPACITY) HAVE BEEN ORDERED IN 1973-74, AND EIGHT MORE UNITS (10,000 MW CAPACITY) ARE TO BE ORDERED IN 1975 FOR CONSTRUCTION OVER PHASED PERIOD. FOUR TO FIVE MORE UNITS (4,500 MW) WILL BE ORDERED DURING THE 1978-1982 PERIOD. THE MAJOR PROBLEMS (APART FROM SITING AND PUBLIC ACCEPTANCE WHICH ARE PARTICULARLY DIFFICULT) ARE THOSE OF FINANCING AND FUEL.

6. WITH RESPECT TO FINANCING, DONAT-CATTIN STATED THAT THE CURRENT FINANCIAL SITUATION OF STATE ELECTRICITY AUTHORITY ENEL IS BAD AND THAT ENEL WILL HAVE TO SEEK A LOW INTEREST RATE CONSOLIDATION OF ITS EXISTING DEBTS. EVEN AFTER RATE INCREASES IN 1974 AND EARLY 1975 ENEL EXPECTS A SUBSTANTIAL ABOUT \$600 MILLION) DEFICIT IN 1975. HOWEVER, RATE INCREASE AND COST REDUCTION PROGRAM IS UNDERWAY WITH OBJECTIVE OF MAKING ENEL SELF-SUFFICIENT AND BY 1977 CAPABLE OF FINANCING A SUBSTANTIAL PORTION OF ITS EXPANSION PROGRAMS. THIS WILL BE ACCOMPLISHED BY MEANS OF FUTHER RATE HIKES AND INCREASE IN CAPITAL BY BUDGETARY APPROPRIATIONS AND CAPITAL BORROWINGS. CONFIDENTIAL

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DESPITE THIS, ENEL WILL NEED SUBSTANTIAL ADDITIONAL FINANCING WHICH ITALIAN CAPITAL MARKETS WILL BE UNABLE TO SUPPLY. NUCLEAR REACTOR PROGRAM ESTIMATED COST IS 10,000 BILLION LIRE (APPROXIMATELY \$16 BILLION) OF WHICH EXTERNAL-FINANCING COSTLY FOR LOCAL COSTS-ESTIMATED AT \$7-8 BILLION. ENDERS TOLD DONAT-CATTIN AND OTHER ITALIANS SEPARATELY) THAT PROGRAM APPEARS VERY AMBITIOUS AND THAT FOREIGN BORROWINGS WOULD PRESENT MANY OBSTACLES, ALTHOUGH HE ALSO ENCOURAGED GOI TO GO FORWARD. HE ALSO OBSERVED THAT RATE STRUCTURES AND OPPOSITION TO INCREASES ARE SERIOUS OBSTACLE TO NUCLEAR PROGRAMS IN US AS WELL AS ITALY.

7. RE FUEL, DONAT-CATTIN NOTED GOI ESTIMATES 21,000 M.T. NATURAL URANIUM WILL BE NECESSARY, OF WHICH 14,500 M.T. ALREADY UNDER CONTRACT. HOWEVER, MIN. IND. CONSIDERS LESS THAN 20 PERCENT THIS CONTRACTED AMOUNT IS SECURE BECAUSE OF HEDGING BY CANADA, NIGER AND AUSTRALIA ON SUPPLY CONTRACTS. THIS MINIMUM GAP IS AT LEAST 6,500 TONS AND THE SHORTFALL COULD BE AS MUCH AS 18,000 TONS. ENRICHMENT PROBLEMS ENTER AS WELL. IF EURODIF COMES ON STEAM AS SCHEDULED IN 1979-1980, PROBLEMS SHOULD BE OF MINOR DIMENSIONS. IF THERE SHOULD BE DELAYS, SUPPLY PROBLEMS WOULD BE VERY SUBSTANTIAL.

8. DONAT-CATTIN, EMPHASIZING NEED OF US-ITALIAN BILATERAL COOPERATION ON SPECIFICALLY ITALIAN PROBLEMS, PROPOSED THE

CREATION OF A BILATERAL WORKING GROUP TO DISCUSS TECHNICAL PROBLEMS, FINANCING ARRANGEMENTS CONNECTED WITH ITALIAN NUCLEAR PROGRAM AND RESEARCH AND DEVELOPMENT (SEPTTEL).

9. CONVERSATION WITH FONMIN RUMOR BEING REPORTED SEPARATELY.

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